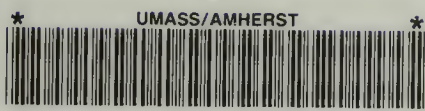




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## Reducing Local Restrictions on Housing Development

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### Executive Summary

Since 1996, housing costs in the Commonwealth have risen at a rate above the national average. Yet housing supply growth appears to be stagnant. Permits for new housing units remain at about their 1994 level and net new growth in single family parcels between 1992 and 1998 is flat at about 12,500 per year.

The new housing that is being built tends to be at the higher end of the market, and the number of multi-family developments is actually declining. This decline in multi-family developments exacerbates the affordability issue, particularly since renters typically have lower incomes than owners, and also means development is less dense and more likely to lead to urban sprawl.

While the growth in housing costs is nowhere near the level it reached during the speculative boom of the 1980s, greater gains in housing supply are necessary to moderate the current rise in housing costs and avoid even greater spikes in the future. Without additional supply, housing costs may continue to accelerate, imposing a stiff burden on Massachusetts renters and homebuyers as well as decreasing the state's overall economic competitiveness.

Despite the need for more residential development, many communities resist increasing the supply of housing within their jurisdictions because they fear revenues from new development will not cover the costs of an influx of families and schoolchildren. Lessening this fear and encouraging Massachusetts localities to permit more residential development is potentially among the most effective methods of increasing housing supply for the following reasons:

- **Current Restrictions Raise Housing Costs:** Studies by several economists, including Anthony Downs of the Brookings Institute and William Fischel of Dartmouth College, indicate that local regulation increases housing prices by as much as 30%-50%.

- **Local Zoning Regulations Can Severely Limit Potential Development:** Some Massachusetts cities and towns are restricting housing development to the point that new development requires an average of twice as much acreage per unit as existing development.
- **Current Zoning Laws Pose a Threat to the Environment:** Failure to loosen restrictive zoning regulations will not only increase housing costs and imperil the state's economic expansion; it will also push development farther away from urban centers and thereby increase sprawl.

To help communities bear the costs of further low- and moderate-income housing development, the Cellucci/Swift Administration has issued an Executive Order giving communities that take steps to encourage residential development priority for discretionary grants. The Cellucci/Swift budget proposal for fiscal year 2001 also redirects nearly \$50 million of \$476 million in Local Aid known as Additional Assistance toward communities where low- and moderate-income residential development occurs. These funds will help offset the financial burden residential development imposes on communities. Together, the Administration's actions should ameliorate community concerns about more residential development, provide private homebuilders with more opportunities to increase housing supply, and help moderate the current acceleration in housing prices.

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*John Simon and Rebecca Rissman of Administration and Finance performed much of the research and analysis for this brief. They were assisted by Robert Costrell and Pamela MacLeod of Administration and Finance, Carlo DeSantis of Housing and Community Development, and Kurt Gaertner of Environmental Affairs.*



## Reducing Local Restrictions on Housing Development

Since 1996, housing costs in the Commonwealth have risen at a rate above the national average. In the twelve months ending September 30, 1999, the Repeat-Sales Home Price Index<sup>1</sup> for Massachusetts rose 11.5%, compared to 5.9% for the nation as a whole.

**Housing Price Growth**  
*Annual Percent Change in Repeat-Sales Home Price Index*



Source: Fannie Mae and Freddie Mac


Despite these relatively rapid increases, housing supply growth appears to be stagnant. Permits for new housing units remain at about their 1994 level and net new growth in single family parcels between 1992 and 1998 is flat at about 12,500 per year. The new housing that is being built tends to be at the higher end of the market, and the number of multi-family developments is actually declining. This decline in multi-family developments exacerbates the affordability issue, particularly since renters typically have lower incomes than owners. In addition, single family development is less dense than multi-family development and more likely to lead to urban sprawl.

**Total Housing Permits Authorized Relative to 1980**  
*Housing Units, Seasonally Adjusted, 1980=100*



Source: US Department of Commerce

<sup>1</sup> The Repeat-Sales Home Price Index measures the annual rate of price change for sales of the same homes, thereby isolating market effects from price changes caused by changes in the mix of houses sold.



While the growth in housing costs is nowhere near the level it reached during the speculative boom of the 1980s, greater gains in housing supply would moderate the current rise in housing costs and avoid even greater spikes in the future. Without additional supply, housing costs may continue to accelerate, imposing a stiff burden on Massachusetts renters and homebuyers as well as decreasing the state's overall economic competitiveness. Encouraging Massachusetts localities to permit more residential development is critical to bringing more units onto the market.

### The Effects of Local Restrictions on Housing Development

According to Anthony Downs, an economist with the Brookings Institution, "the restrictive behavior of local governments – expressed through their various regulations – is by far the most important single cause of high housing costs."<sup>2</sup> Nationally, barriers to residential development take two general forms: 1) ordinances requiring inflexible construction standards and minimum structure sizes and 2) ordinances requiring low residential densities.<sup>3</sup> Minimum standards for both construction quality and density are necessary to protect the safety, health, and quality of life of residents and communities. However, research by Anthony Downs and the Advisory Commission on Regulatory Barriers to Affordable Housing established by the United States Department of Housing and Urban Development (HUD) in 1990 indicates that local ordinances often mandate standards for new development that are well in excess of those under which most of the country's homes were built. For instance, most suburbs in the United States prohibit residential densities in excess of 10 units per acre even though many parts of the country have high quality housing at densities of more than 35 units per acre.<sup>4</sup> Many communities in suburban Chicago do not permit manufactured housing, increasing the minimum cost of home building. At the end of the last decade in King's County, Washington – which was, and still is, one of the hottest real estate markets in the country – more than 1,500 square miles of land were zoned to allow only one house per every five acres of land.<sup>5</sup>

Anthony Downs attributes over half of the cost of building new housing to local regulations that are in excess of minimum requirements for health and safety.<sup>6</sup> The Advisory Commission on Regulatory Barriers to Affordable Housing reported in 1991 that "the Commission has seen evidence that increases of 20 to 35 percent in housing prices attributable to excessive regulation are not uncommon."<sup>7</sup> Writes William A. Fischel of Dartmouth College: "A number of studies have been done [on regulatory growth controls], and almost all of them conclude that growth controls raise housing prices."<sup>8</sup> His review of these studies indicates that such controls raise housing prices by 8% to as much as 38%.

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<sup>2</sup> Margery Austin Turner and G. Thomas Kingsley, "Housing Markets and Residential Mobility," 1993, The Urban Institute Press: Washington, DC, p. 261

<sup>3</sup> "Residential Density" refers to the number of units per acre.

<sup>4</sup> Margery Austin Turner and G. Thomas Kingsley, "Housing Markets and Residential Mobility," 1993, The Urban Institute Press: Washington, DC, p. 262

<sup>5</sup> The Advisory Commission on Regulatory Barriers to Affordable Housing, "Not in My Back Yard: Removing Barriers to Affordable Housing," Report to the President, 1991, p. 2-7

<sup>6</sup> Margery Austin Turner and G. Thomas Kingsley, "Housing Markets and Residential Mobility," 1993, The Urban Institute Press: Washington, DC, p. 263

<sup>7</sup> The Advisory Commission on Regulatory Barriers to Affordable Housing, "Not in My Back Yard: Removing Barriers to Affordable Housing," Report to the President, 1991, p. 1-1

<sup>8</sup> William A. Fischel, "Do Growth Controls Matter? A Review of Empirical Evidence on the Effectiveness and Efficiency of Local Government Land Use Regulation," Lincoln Institute of Land Policy, 1990, p. 29

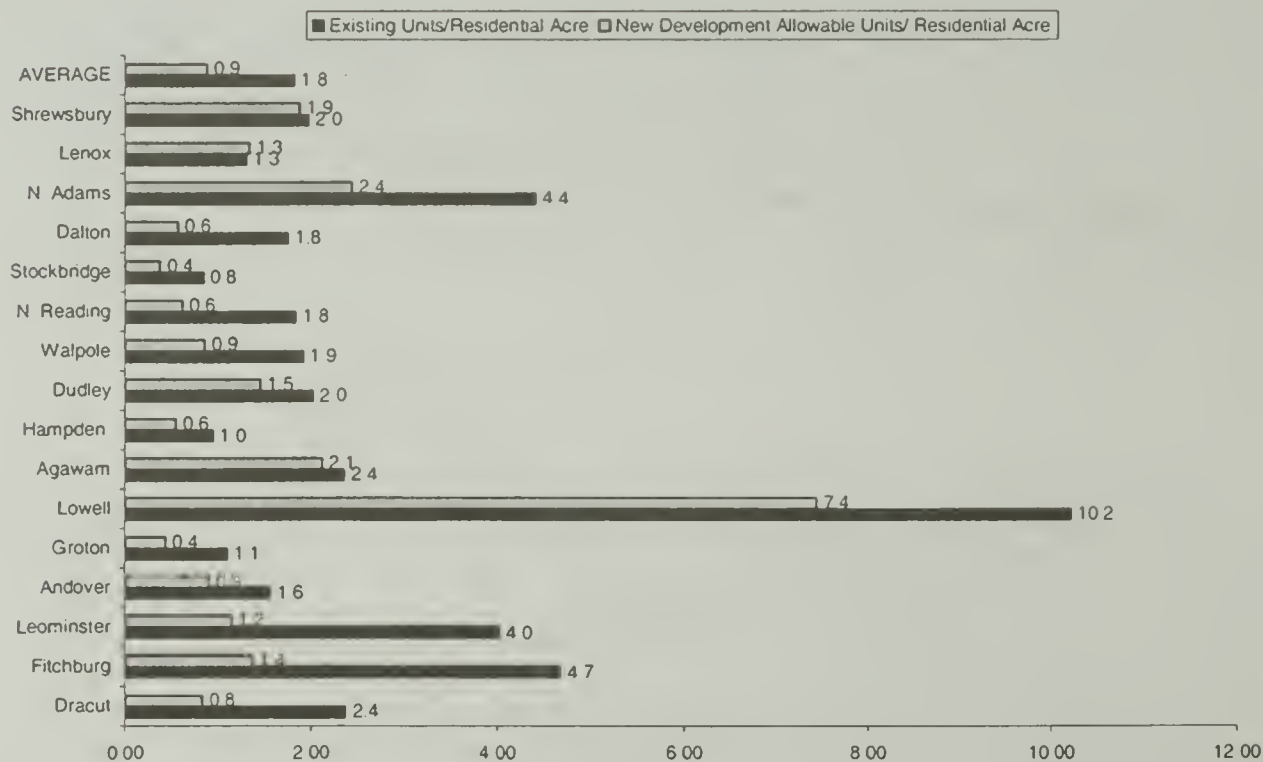


### Restrictions on Housing Development in Massachusetts

In Massachusetts, developed land now has less than half the population density (4.97 persons/acre) than it had in 1950 (11.19 persons per acre).<sup>9</sup> Between 1950 and 1990, the amount of developed land increased at a rate greater than six times population growth.<sup>10</sup> One of the reasons for this precipitous drop in density is the imposition of regulatory barriers that require significantly more land to build a unit of housing. For instance, many Massachusetts communities require not only minimum lot sizes of an acre or more, but also minimum setbacks for the buildings, minimum front yard area, minimum lot widths, and minimum setbacks for parking. Accessory, or “in-law,” apartments are often prohibited. Forty-five communities in the Commonwealth have adopted explicit growth rate by-laws that limit the construction of new units to as little as 50 per year. Of sixteen communities reviewed in depth by the Executive Office for Environmental Affairs (EOEA), six had adopted regulations making it impossible to build multi-family housing in any form.

One way to quantify the extent to which these barriers constrict housing supply is to compare how much new development is allowed on vacant land zoned for residential development to the residential density of developed land within the same community. In the sixteen cities and towns reviewed by the Executive Office for Environmental Affairs, current zoning regulations permit an average development density of 0.9 units per residentially zoned acre compared to the average of 1.8 units per acre that now exists on land already developed.<sup>11</sup> In some towns, new development requires nearly 3.5 times the amount of land as existing development, and in only one of the sixteen communities reviewed do current zoning regulations allow density equivalent to the status quo. This means that current zoning regulations require much less efficient use of land relative to existing development, adversely impacting both the costs of land and the environment.

#### Allowable Development Densities



Source: Executive Office for Environmental Affairs

<sup>9</sup> U.S. Census Data, University of Massachusetts/MacConnel Land Use Data, MassGIS Analysis

<sup>10</sup> Ibid.

<sup>11</sup> Executive Office of Environmental Affairs



## The Costs of Additional Development to Localities

There are many reasons why communities erect such high barriers to further development. Some residents fear the character of their city or town could irrevocably change if too much development occurs. Others believe increases in development will increase traffic congestion and pollution. Yet the predominant concern cited to state officials is that additional residential development will place an undue burden on local budgets. This is because residential development often means more schoolchildren, whose education costs cannot be offset by the property tax revenues generated by the new development. The fear that residential development will cost communities more than they can collect in taxes is shared by local officials throughout the nation, according to Berkeley professor Elizabeth Deakin's review of opinion surveys on growth controls.<sup>12</sup>

Studies by the American Farmland Trust and the Commonwealth Research Group show that these concerns are not unfounded. These groups looked at fourteen New England towns and quantified the costs and revenues associated with each type of land use. The analysis involved in-depth discussions with local officials to discern how to allocate budgeted expenses and revenues among various land uses. According to these studies, for every tax dollar that residential development generated in the observed communities, the localities faced an average of \$1.13 in costs.<sup>13</sup> The sample size for these analyses is not large enough to generalize them to the Commonwealth as a whole, but they are an indication of how residential development can negatively impact local finances.

Another way to look at the costs of new development is to isolate the effects that additional schoolchildren will have on town finances. The 1987 American Housing Survey conducted by HUD found that each additional unit of single family housing resulted in an average of 0.7 additional school-age children.<sup>14</sup> Analysis by the Executive Office for Administration and Finance of single family development and school enrollments in Massachusetts between 1993 and 1998 indicates that every additional single family unit contributes a similar number of 0.6 students to a locality's "foundation" enrollment.<sup>15</sup> After factoring out the average tax assessment on a moderately priced home and the additional state aid each new enrollment can be expected to generate, every additional single family home could cost a community approximately \$1,500 in unrecovered education expenses alone.

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<sup>12</sup> William A. Fischel, "Do Growth Controls Matter? A Review of Empirical Evidence on the Effectiveness and Efficiency of Local Government Land Use Regulation," Lincoln Institute of Land Policy, 1990, p. 33

<sup>13</sup> The American Farmland Trust, "Does Farmland Protection Pay? The Cost of Community Services in Three Massachusetts Towns, 1992; Commonwealth Research Group, "Cost of Community Services in Southern New England," 1995

<sup>14</sup> The Commonwealth of Massachusetts Department of Housing and Community Development, "The Growth Impact Handbook: Ways to Preview Your Community's Future," 1998, p. 57

<sup>15</sup> "Foundation Enrollment" is the number of students for which a school district is financially responsible.



**Additional Education Expenses Associated with Single Family Housing Development**  
*For Illustrative Purposes Only*

|   |         |
|---|---------|
| Average Annual Education Cost Per Pupil in the Commonwealth   | \$7,000 |
| Additional Pupils Due to a New Single Family Unit   | 0.6     |
| Expected Additional Education Expense Due to a New Single Family Unit (\$7,000 * 0.6)                                       | \$4,200 |
| Less: Anticipated Tax Revenues From a \$150,000 Home (0.017 Average Property Tax Assessment * \$150,000)                    | \$2,550 |
| Less: Additional Education Aid From New Students – Assuming District is Above Foundation (\$150 Required Minimum Aid * 0.6) | \$90    |
| Annual Unrecovered Education Costs for a New Single Family Housing Unit   | \$1,560 |

Cities and towns at the foundation funding level<sup>16</sup> will receive more state aid for each additional student, but they will also be less wealthy and have lower anticipated tax revenues per unit. Moreover, the above calculation does not take into account the costs of funding non-education services for the community’s new residents, such as new roads, sewers, and public safety.

**Impacts on Urban Sprawl**

Barriers to residential development do not only limit housing supply and therefore increase housing costs; they also have the self-defeating effect of increasing sprawl. As Anthony Downs argues: “Each locality’s success at reducing future growth within its boundaries merely shifts that growth to some other part of the region... The more localities within a region adopt policies that reduce their own future population, the more likely that growth will shift outward towards the edge of the region and thus, the greater the degree of future sprawl there.”<sup>17</sup> This will also mean more traffic in total, more costs for highway and mass transit construction, and more regional pollution. In some cases, traffic within towns with high barriers to growth may increase as commuters pushed to towns further out drive through the more exclusive communities on their way to the urban core. The efforts of each town attempting independently to minimize growth and congestion within its borders may result in sprawl increasing in the region as a whole. Few towns would then realize any benefits from their actions.

<sup>16</sup> The Foundation Funding Level is the minimum level of educational funding per student required by the Education Reform Act.

<sup>17</sup> Anthony Downs, “Some Realities About Sprawl and Urban Decline.” The Brookings Institution, 1999, p.



## Conclusion

Encouraging towns to reduce barriers to development is a critical element in any strategy for increasing housing supply and controlling housing cost growth. Massachusetts already has one of the more proactive "inclusionary" zoning laws in the country in Chapter 40B, enacted in 1969. This law allows a Zoning Board of Appeal (ZBA) to issue a "comprehensive permit" that overrides local zoning and other ordinances to permit "affordable"<sup>18</sup> housing development. Where less than 10% of a community's housing stock is listed on the state's Chapter 40B Subsidized Housing Inventory,<sup>19</sup> a developer can appeal an adverse ZBA decision to the Commonwealth's Housing Appeals Committee. Yet after thirty years, more than 93% of the Commonwealth's communities have yet to meet the 10% affordability threshold.

To complement this "stick," communities need a "carrot" that will eliminate the fiscal disincentive at the local level to permit residential development, particularly moderately priced single-family and multi-family units. Specifically, communities want to be held harmless for the potential increases in the demands on the local school system that new moderately priced housing will impose. Communities can support the additional costs associated with higher priced homes through the higher property tax revenues such homes generate, but they have difficulty sustaining services to families moving into moderately priced homes or multi-family apartments. Therefore, the Cellucci/Swift Administration is redirecting \$47 million in local aid currently distributed as Additional Assistance to communities where low- and moderate-income residential development occurs. These funds will help offset the negative financial impact of residential development on communities. Priority for other state assistance, such as open space, transportation, and community development grants, will also mitigate the other perceived negative effects of greater residential development such as more traffic and pollution.

Ultimately, opening up the Commonwealth's housing market is as fundamental to the continued success of the Massachusetts economy as it is essential to the many families struggling to find permanent homes. Without more housing opportunities, talented people will no longer be able to move to or continue living in Massachusetts. All communities have a stake in ensuring this does not happen. The State stands ready to support those communities willing to be part of the solution.

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<sup>18</sup> For these purposes, "affordable housing" refers to housing with use restrictions as defined below.

<sup>19</sup> For a development to be qualified for inclusion in the Chapter 40B Subsidized Housing Inventory, long-term use restrictions must require at least 25% of its units to be available at below-market prices or rents to households at or below 80% of area median income. In qualified homeownership developments, the Subsidized Housing Inventory counts as "40B units" only the units deed-restricted for income-eligible residents. In qualified rental developments, all units, including those not restricted for low- or moderate-income households, are counted as 40B units. While it is not an exact or complete inventory of all affordable housing, DHCD believes that the 40B Inventory is a good proxy for identifying communities with concentrations of affordable housing stock.

